



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

The States' Fiscal Crisis: How Are States Coping? Are Federal Policies Making It Worse?

Statement of John M. Spratt, Jr.

October 17, 2003

Good morning and welcome to the House and Senate Democratic Leadership forum on fiscal challenges facing states and local governments. I would like to extend a special thank you to Governor Ruth Ann Minner and Mayor Douglas Palmer for traveling to Washington for this forum. I would also like to thank the witnesses on our second panel, Iris Lav and Chris Atkins, for their participation. I look forward to hearing the insights that our witnesses have to offer. I would like to extend special recognition to Senator Tom Carper, my co-chair for today's event.

The Democratic leadership called this forum because states are grappling with their worst fiscal crisis in decades. In fiscal year 2003, 37 states cut *already enacted* budgets by a total of \$14.5 billion. For 2004, governors in 29 states recommended tax and fee increases of \$17.5 billion. State governments have imposed hiring freezes, borrowed against public pension funds, released inmates from prison early, and raided tobacco settlements – but still the shortfall persists. States are now resorting to even more severe spending cuts and additional tax increases to close their budget gaps. Local governments and school districts are also feeling the pinch.

Federal spending and tax decisions have a direct effect on state and local budgets, and on state and local governments' ability to provide the services that the public needs. In times like the present, federal policymakers must be especially mindful of how these decisions affect states. States are struggling to maintain basic services in the face of steep revenue shortfalls and upward pressures on costs, particularly in health care. At the very least, federal budget policy at this time should adhere to the age-old Hippocratic oath: do no harm.

Unfortunately, the Republican budget for 2004, with its single-minded focus on tax cuts at the expense of all else, does cause harm to states. While the Republican tax cut signed into law earlier this year followed the Democratic lead in providing some money for state fiscal relief, that relief is undercut by other Republican budget decisions. The report released today by the House Budget Committee Democratic staff shows that a variety of federal budget actions this year will make it more difficult for states to balance their budgets and maintain services in 2004 and the years ahead.

For example, the House-passed Republican appropriations bills for 2004 provide \$10.6 billion less than the amount needed to maintain domestic programs at last year's levels. This translates into insufficient resources to states and local governments for vital needs such as port security, childhood immunizations, crime prevention programs, and other activities that directly affect the quality of life in local communities.

Other federal budget actions affect state budgets in more subtle ways. Federal tax cuts, for example, can cause state revenues to decline. Proposals to convert federal programs into capped block grants to states in effect transfer the cost of caring for vulnerable populations to the states. And the Republican Congress sometimes increases state and local government costs by imposing requirements without providing adequate funding to accompany those requirements. We have seen this happen in education and numerous other areas.

Our panelists today will provide their insights into these issues and offer some thoughts on how the federal government could better operate as a partner with state and local governments to deliver important public services.